

April 1, 2019

Robert E. Feldman
Executive Secretary,
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Ann E. Misback
Secretary,
Board of Governors of the Federal Reserve System
Eccles Board Building
20th and C Streets, N.W.
Washington, D.C. 20219

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, S.W.
Washington, D.C. 20219

Re: Community Bank Leverage Ratio

Ladies and Gentlemen:

As leaders of ANB Bank, a \$2.5 billion family- and employee-owned community bank serving Colorado, Wyoming and Kansas, we support the Congressional intent of Section 201 to simplify the capital requirements for banks with assets under \$10 billion. However, the proposal as currently drafted is unlikely to have many community banks opt in, thus defeating the intent.

Therefore, we make three recommendations to improve the proposal.

- 1) Use the existing Tier 1 capital definition as the numerator in the CBLR, for the following reasons.
 - It is a known quantity, it works well, and banks do not have to spend time and money to reconfigure their capital structure in order to opt in.
 - Having two different definitions of Tier 1 (the current regime and the CBLR proposal) could make changing from one capital structure to another expensive and impractical, thus making a switch effectively not optional once a bank has made an initial choice.
 - Under the proposal's equity-only definition, a significant source of low-cost capital for this bank and other community banks, Trust Preferred Securities, would be eliminated. At present, Trust Preferred securities can make up 25% of Tier 1 capital for banks under \$10 billion. If existing Trust Preferred securities were eliminated from Tier 1, it would have to be replaced with more expensive common equity. As noted below, a bank such as ours, with a deliberately low-to-moderate risk profile, would have little option other than to raise the bank's risk profile to earn the additional returns needed to compensate investors.

- Finally, S-corp banks (which are roughly 40% of all community banks) will be disadvantaged relative to C-corp banks, because S-corps do not have the C-corp option of issuing (relatively inexpensive) preferred stock.

2) Set the CBLR Threshold at 8%.

- The proposal's central feature is to raise the "Well-Capitalized" leverage ratio from 5% to 9%.
- Under the present system of risk-based capital, banks with low-to-moderate risk profiles, such as ours, can be rewarded with a modestly lower leverage ratio than their riskier peers. For example, this bank's practice is to maintain at least 8% leverage and 13% risk-based capital, still significantly exceeding the current standards. As noted above, the only way for banks like ours to earn the incremental returns needed to pay for this proposal's extra capital would be to add more risk to the bank. Thus, banks maintaining low-to-moderate risk business strategies would find it difficult to attract the investors they need to have a viable future and continue to serve their communities.

3) Ensure regulatory practice keeps the expectation at 8%.

- Establishing an 8% CBLR would already raise the leverage standards by 60 percent. For Section 201 to be meaningful, there cannot be an unwritten regulatory expectation that banks would then exceed this higher standard by significant margins. This current expectation is epitomized by the regulator comment that "being well-capitalized under the regulation doesn't mean you're well-capitalized". Most banks today keep capital at least three percentage points over the "well-capitalized" thresholds, in significant part to avoid regulatory criticism. Absent the combination of these last two recommendations, we expect that the practical minimum would be roughly 10.5%, simply defeating the Congressional intent of Section 201.

Taken together, these three recommendations make it plausible for well-run community banks with low-to-moderate risk profiles to opt in. Without making these changes, the low-risk community bank we manage would both: a) lose \$40MM of low-cost capital it has issued in the form of Trust Preferred securities¹; and b) need to raise roughly \$110MM of common equity just in order to both replace the Trust Preferred and meet the practical effect of a 9% standard. In other words, our company's common equity would need to increase over 60%, equating to roughly \$1 billion in lending for this institution alone.

Thank you for this opportunity to comment. We look forward to an implementation of Section 201 that allows low-to-moderate risk banks both to opt in and to continue to serve their communities.

Sincerely,



Koger L. Propst
President & CEO



Susan M. Sturm
Chief Financial Officer

¹ We acknowledge that our parent company at slightly under \$3 billion in total assets does not currently need to meet separate capital standards. However, this loss of Trust Preferred as Tier 1 capital would occur as soon as our company exceeds \$3 billion, effectively choking off the possibility of future growth and thus its viability as an independent community bank.